

**Market data**

EPIC/TKR	AGY
Price (p)	29.0
12m High (p)	31.0
12m Low (p)	17.3
Shares (m)	594.1
Mkt Cap (£m)	172.3
EV (£m)	147.9
Free Float*	37%
Market	AIM

*As defined by AIM Rule 26

Description

AGY provides information to professionals related to prevention, diagnosis and treatment of allergic conditions with special focus on allergy vaccination. The emphasis is on treating the underlying cause and not just the symptoms.

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

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www.allergytherapeutics.com**Key shareholders**

Directors	0.7%
Abbott Labs	40.5%
Southern Fox	21.4%
Odey	7.4%
Invesco	5.7%
Blackrock	3.2%

Diary

Sept-17	Finals
Nov-17	AGM
1H'18	Ph.III PQBirch trial

Analysts

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Allergy Therapeutics

Strong sales drive market share gains

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro continues to gain market share despite being available in the EU only on a 'Named Patient' basis. Trials for full approval as a biological have progressed well in the EU, with the first patient recruited in the pivotal birch pollen allergy vaccine Phase III trial. US trials are back on-track with a new safety trial underway. Investment in marketing infrastructure over the last two years is bearing fruit with strong underlying sales growth in a flat market, improving market share by an estimated two percentage points.

- **Strategy:** AGY is a fully integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.
- **Trading update:** A trading update released to the market indication that AGY has continued to gain market share in Europe with underlying sales growth of +15% to £64.1m (£48.5m), which was nearly £2m above expectations, an exceptional performance in the seasonally weaker second half.
- **Cash position:** The strong sales position was reinforced by a better than expected period-end cash position of £22.1m (£27.8m @ 31st Dec). This suggests a leverage effect from increased sales, and timing of R&D spend, have reduced significantly the expected 2H losses. Net cash is forecast at about £18.5m.
- **Site visit:** AGY benefits from its very strong heritage, backed-up by continuous investment in manufacturing facilities, such that it passes regulatory inspections consistently and delivers quality product in a timely manner. This is fundamental to its strong operating performance, and was borne out during a recent site visit.
- **Investment summary:** AGY is going through an exciting period, with a clear vision, gaining market share from competitors, and leading the race to have its products fully approved and regulated as biologicals, first in Europe, then in the US, where the regulators are demanding change. Read-out from the EU Phase III PQBirch trial in 2018 will provide the next major value inflexion point.

Financial summary and valuation

Year end June (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	41.96	43.23	48.51	64.1	71.3	80.8
R&D investment	-2.96	-3.12	-16.22	-9.4	-18.0	-16.0
Underlying EBIT	1.39	2.91	-12.19	-2.5	-9.1	-5.4
Reported EBIT	1.21	1.41	-12.38	-2.0	-9.6	-5.9
Underlying PBT	1.27	2.84	-12.30	-2.5	-9.2	-5.5
Statutory PBT	1.08	0.65	-12.06	-2.0	-9.7	-6.0
Underlying EPS (p)	0.20	0.48	-2.33	-0.6	-1.7	-1.1
Statutory EPS (p)	0.16	0.02	-2.29	-0.5	-1.8	-1.2
Net (debt)/cash	2.25	20.14	20.04	18.7	8.2	3.1
Capital increases	0.00	20.08	10.97	0.3	0.3	0.3
P/E (x)	-	-	-	-	-17.0	-26.6
EV/sales (x)	3.5	3.4	3.0	2.3	2.1	1.8

Source: Hardman & Co Life Sciences Research

FY 2017 trading update

Allergy Therapeutics has released a trading update to the market of key metrics for fiscal 2017. The full audited statement will be published during September 2017. Underlying sales growth was ca.£2m ahead of market expectations, and this was boosted at the reported level by the weakness of sterling.

Key headlines

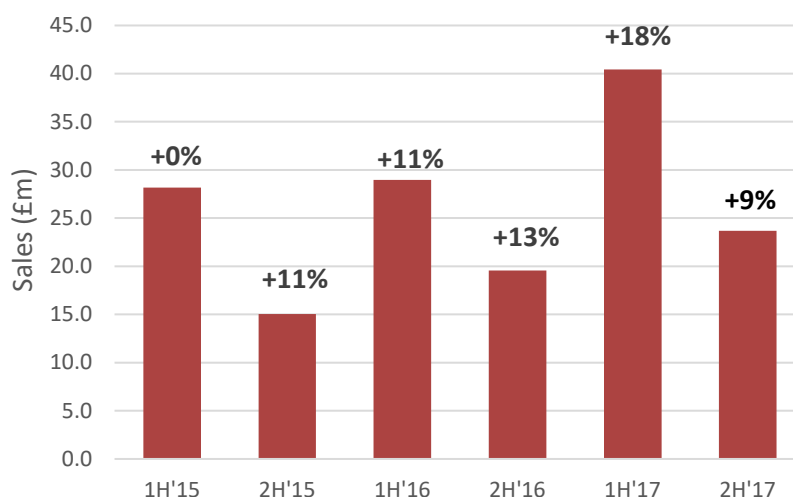
- ▶ Underlying sales growth +15% to £64.1m (£48.5m), following on from the +18% growth seen in the traditionally stronger first half
- ▶ The main drivers of growth were AGY's market leading products Pollinex Quattro, Pollinex, and Venomil, which benefited from positive and continuous supply compared to some competitor products
- ▶ This growth has been achieved against a backdrop of a flat European allergy market, suggesting about 2pp of market share gains
- ▶ The cash balance was £22.1m at 31th June vs £27.8m at 31stDecember, which was considerably higher than forecast, suggesting that the higher sales had a leverage effect on profitability, coupled with timing of R&D spend

AGY FY 2017 – actual vs expectations

Year to June (£m)	2016 actual	2017 actual	CER growth %	2017 forecast	Delta
Group sales	48.5	64.1	+15%	62.4	+1.7
Cash balance	23.4	22.1	nm	18.4	+3.7
Net cash/(debt)	20.0	18.5	nm	15.0	+3.5

Source: Allergy Therapeutics; Hardman & Co Life Sciences Research

Allergy Therapeutics – Half-year sales trend & CER growth rates



Source: Hardman & Co Life Sciences Research

- ▶ At the half year stage, there was evidence that the timing of R&D spend was moving from 2017 into 2018 and this was highlighted in the statement. Consequently, we believe that R&D for 2017 will be nearer -£9.4m (↓£1.5m), whilst 2018 will increase to £18.0m (↑£2.0m). Recruitment for the Phase III Birch trial remains in-track and is expected to start in early 4Q 2017.

Financial summary

Profit & Loss account						
Year end June (£m)	2014	2015	2016	2017E	2018E	2019E
GBP:EUR	1.198	1.270	1.338	1.171	1.171	1.171
Profit & Loss:						
Sales	41.96	43.23	48.51	64.10	71.34	80.80
COGS	-11.95	-12.18	-14.07	-16.50	-18.08	-20.16
Gross profit	30.00	31.05	34.44	47.60	53.26	60.64
Gross margin (%)	71.5%	71.8%	71.0%	74.3%	74.7%	75.1%
SG&A	-17.92	-17.06	-20.22	-26.53	-29.10	-33.52
Product profit	12.08	13.99	14.22	21.07	24.16	27.12
Product margin (%)	4.2%	0.0%	0.0%	0.0%	0.0%	0.0%
G&A	-7.80	-8.03	-10.33	-14.20	-15.31	-16.53
R&D	-2.96	-3.12	-16.22	-9.35	-18.00	-16.00
EBITDA	2.68	4.20	-10.53	-0.57	-7.23	-3.50
Depreciation	-1.01	-1.01	-1.39	-1.91	-1.91	-1.91
Underlying EBIT	1.39	2.91	-12.19	-2.48	-9.14	-5.41
EBIT margin (%)	3.3%	6.7%	-25.1%	-3.9%	-12.8%	-6.7%
Net interest	-0.13	-0.07	-0.11	-0.07	-0.10	-0.10
Pre-tax profit	1.27	2.84	-12.30	-2.55	-9.24	-5.51
Tax	-0.34	-0.55	-1.01	-0.81	-0.89	-0.98
Net income	0.92	2.29	-13.31	-3.36	-10.13	-6.49
Weighted av. shares (m)	451.5	475.2	570.3	593.2	594.1	594.1
Underlying EPS (p)	0.20	0.48	-2.33	-0.57	-1.71	-1.09
Fully diluted EPS (p)	0.20	0.46	-2.26	-0.55	-1.64	-1.04
Balance sheet:						
Share capital	0.42	0.56	0.60	0.60	0.60	0.60
Reserves	14.66	33.91	29.73	26.87	16.23	9.25
Liabilities	6.60	7.26	11.95	11.95	11.95	11.95
Debt	0.12	1.84	3.37	3.37	8.37	18.37
/less: Cash	2.37	21.98	23.41	22.11	16.55	21.47
Invested capital	27.04	27.86	39.32	41.84	52.77	58.08
Net cash/debt	2.25	20.14	20.04	18.75	8.19	3.10
Cashflow:						
Underlying EBIT	1.39	2.91	-12.19	-2.48	-9.14	-5.41
Working capital	0.78	0.21	-1.45	1.32	-0.37	1.82
Tax & interest	-0.08	-0.41	-0.30	-0.67	-0.91	-0.99
Operational cashflow	2.89	3.31	-12.57	0.08	-8.52	-2.67
Capital expenditure	-0.90	-1.09	-1.23	-1.80	-1.89	-2.27
Free cashflow	2.00	2.22	-13.80	-1.72	-10.41	-4.93
Acquisitions	-0.02	-2.67	0.00	-0.02	-0.10	-0.10
Share issues	0.00	20.08	10.97	0.25	0.25	0.25
Change in net debt	1.61	17.88	-0.10	-1.29	-10.56	-5.08
Hardman FCF/sh. (p)	0.64	0.70	-2.20	0.01	-1.43	-0.45

Summary only – numbers do not necessarily add up
Source: Hardman & Co Life Sciences Research

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